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Date: 5/22/2003

GAIN Report #RP3029

# Philippines

# Coffee

# Annual

# 2003

Approved by:
**David C. Miller**
**U.S. Embassy**
Prepared by:
Pia Abuel-Ang

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**Report Highlights:**
**Total coffee production in 2002/03 is expected contract slightly due to low domestic coffee yields and decreased coffee hectarage. Importation for 2002/03 is forecast to continue increasing as local coffee supply is unable to cope with the growing demand. Domestic buying prices registered major gains over 2002 levels mostly as a result of lowerVietnamese coffee production.**

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Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Manila [RP1], RP

## Executive Summary

Total coffee production in 2002/03 is forecast to decline slightly due to low coffee yields and decreasing coffee hectarage. Some modest gains in coffee production are forecast for 2003/04 due to the launching of several joint government and private sector initiatives to rehabilitate and revitalize the domestic coffee industry and because of improved coffee prices. The domestic buying price of coffee beans has also registered a strong improvement during the first quarter of 2003 over last year's levels due mainly to Vietnam's decision to cut production.

Increased importation of coffee is likely to continue through 2003/04 as coffee consumption continues to overtake coffee production. The proliferation of specialty coffee shops, particularly in highly urban areas, is driving the increased acceptance and demand for higher quality coffee. Production of higher quality Arabica beans is likely to grow, particularly in the Benguet region.

## Production

Total production of coffee in crop year 2002-2003 is forecast to decline slightly by 1.22 percent over CY 2001/02 production levels. Domestic production began declining in 1987 due to poor seedling production and technology, higher input costs and less coffee hectarage. Coffee production in CY 2003/04 is forecast to improve slightly due to several government and private-sector led initiatives to rehabilitate and revitalize the local coffee industry.

Production of Arabica coffee is likely to be spurred by increasing demand for this higher quality bean especially by specialty coffee shops and outlets. Production of the local Liberica bean or the "Kapeng Barako," is likely to increase as well, as the demand for the exotic brew increases particularly for export.

Low productivity is a major cause of declining coffee production which averaged only 0.5 to 0.8 ton/ha, significantly below the 3 ton/ha average yield in Vietnam and 2 ton/ha average of Brazil. Factors that affect productivity include limited rejuvenation, low fertilizer usage, water stress and poor management. The majority of coffee farmers have an average land holding of only two hectares. It is estimated that around 300,000 Filipinos depend on the coffee industry.

Coffee growing is widely perceived as a dying industry in the Philippines. It has not been a profitable undertaking, especially as prices for coffee beans have been declining. The antiquated farming skills of coffee farmers and lack of credit support characterize the general neglect for the sector. Consequently, a number of coffee farmers have begun diversifying to other high-value crops. Still, other farmers treat coffee only as their secondary crop and therefore intercrop the coffee trees with other major crops, such as pineapple and coconut.

A study conducted by the Figaro Foundation, an industry organization set up primarily to help the local coffee industry, cites two major causes of the decline of the coffee industry. One is the loss of control over prices of local coffee as the world price and big local buyers dictate the local price. As such, a resonable return on investment is not guaranteed for coffee farmers. The second major reason, according to the Figaro study, is the conversion of once-productive coffee plantations into industrial, commercial or residential lands.

However, domestic coffee buying prices have been above P40 per kg in the first three months of 2003 as prices of coffee in the commodity futures market increased as a result of a reported drop in Vietnam's coffee production. The average March 2003 price of Robusta coffee has gone up to P40.50 per kg from P25.50 a year ago.

Vietnam's current coffee production is expected to drop to 650,000 MT from 900,000 MT last year. Next year, production is expected to drop even further to 630,000 MT. The newly organized National Coffee Development Board (NCDB), composed of private sector and government representatives, has reported that the appreciating value of coffee in the international market this year is expected to generate P750 million to P1 billion in income for coffee farmers nationwide.

| Average Domestic Buying Prices of Philippine Coffee (Robusta) (in Pesos per kilogram) | | | |
|---|---|---|---|
| | 2001 | 2002 | 2003 |
| January | 32.75 | 25.50 | 43.38 |
| February | 32.75 | 25.50 | 43.38 |
| March | 32.75 | 25.50 | 40.50 |
| April | 32.75 | 26.90 | |
| May | 32.75 | 27.50 | |
| June | 32.75 | 27.50 | |
| July | 32.75 | 27.50 | |
| August | 31.00 | 27.50 | |
| September | 31.00 | 30.00 | |
| October | 26.00 | 34.68 | |
| November | 26.00 | 35.50 | |
| December | 26.00 | 40.50 | |
| Average | 30.77 | 29.51 | |

Source: Department of Trade and Industry- International Coffee Organization Certifying Agency (DTI-ICOCA)

The most commonly grown coffee species in the Philippines are Arabica, Robusta, Excelsa and Liberica. The most widely traded varieties are Arabica and Robusta. Arabica grows at high altitudes and is cultivated for its elegant and complex flavor. By contrast, Robusta grows well in lower altitutes and has a harsher flavor. Coffee was introduced into the Philippines in 1740 during Spanish rule and was first planted in Lipa, Batangas.

Coffee production is largely concentrated in Mindanao. In 1998, about 71 percent of the country's coffee output originated from this island. Luzon, on the other hand, contributes 24 percent while the Visayas Region accounts for the remaining 5 percent. While most of the coffee farms are located in Mindanao, the most productive area in terms of volume and quality is Cavite. A total of 164,139 hectares of agricultural land was devoted to coffee production in 2001.

According to statistics from the International Coffee Organization Certifying Agency (ICOCA), Robusta accounts for 75 percent of total production and Arabica 5-10 percent. Other varieties such as Excelsa and Liberica likewise thrive in the country and account for 15-20 percent of the country's coffee production. The country is one of the few countries in the would where all four coffee varieties exist.

Despite the lack of potential in the export market, the Philippines remains devoted to the production of the Robusta variety. The Philippines is known for Robusta, the inferior variety. The high elevation Benguet region, however, is said to have the potential to produce good quality Arabica. However, Benguet farmers lack the technical expertise for growing coffee beans and is further aggravated by the lack of infrastructure support (i.e., farm to market roads) to transport harvested beans. Also, Benguet coffee plantations are reportedly 10 to 12 years old and are in need of rejuvenation which entails technical care and the use of proper fertilizers.

## Consumption

World consumption of coffee continues to increase and is expected to follow population growth. Moreover, coffee consumption among Filipinos has also increased considerably. Domestic consumption is estimated to be increasing by 2 to 3 percent per year (the Philippines has an annual population growth rate of 2.3 percent). This growth can also be attributed to the proliferation of specialty coffee shops, catering to a wider and younger group of consumers.

About 90 percent of the coffee consumed annually is in the form of soluble or instant coffee purchased by households from groceries, supermarkets and wet markets. The remaining 10 percent is in the form of ground roasted or brewed coffee.

The National Coffee Development Board (NCDB) estimates that the Philippines consumes 55,000 metric tons of coffee each year but is only able to produce about 20,000-25,000 metric tons, or less than half. Over the past 25 years, local consumption increased tremendously (by 150 percent) from 22,140 MT in 1977 to about 55,000 MT currently. The gap between local supply of coffee beans and local demand, amounting to 20,000 MT (about 30 percent of demand) is filled through imports.

| PHILIPPINE PRODUCTION,CONSUMPTION AND EXPORTS OF COFFEE | | | | |
|---|---|---|---|---|
| Crop Year | Total Production ('000 bags) | Domestic Consumption ('000 bags) | Export Volume ('000 bags) | FOB Export Value ($ Million) |
| 1990-91 | 974 | 720 | 128 | 7.58 |
| 1991-92 | 1018 | 750 | 52 | 3.73 |
| 1992-93 | 920 | 750 | 22 | 2.34 |
| 1993-94 | 875 | 770 | 99 | 14.00 |
| 1994-95 | 877 | 780 | 88 | 11.37 |
| 1995-96 | 850 | 810 | 30 | 4.10 |
| 1996-97 | 890 | 831 | 28 | 4.20 |
| 1997-98 | 935 | 853 | 37 | 3.89 |
| 1998-99 | 685 | 810 | 11 | 1.19 |
| 1999-00 | 739 | 862 | 4 | 0.49 |

| | | | | |
|---|---|---|---|---|
| 2000-01 | 775 | 820 | 3 | 0.35 |
| 2001-02 | 759 | 821 | 6 | 1.00 |
| 2002-03 | 721 | 829 | N/A | N/A |

Source: Department of Trade & Industry, International Coffee Organization Certifying Agency (DTI-ICOCA)

## Trade

Data from the ICOCA shows that the Philippines had been a net exporter of coffee since 1978, with exports reaching a peak of 44,800 MT in 1986. Record revenues from coffee exports reached $132.2 million in 1986, against 2001 exports of only 180 MT. Coffee exports began declining in 1989. The Philippines used to be one of the largest coffee exporters in the world but economic difficulties, along with fierce competition from Latin American growers, relegated it to being a net importer. The Philippines became a net importer of coffee starting in the early 1990s.

ICOCA data shows that CY 2001/02 Philippine coffee exports were valued at nearly $1 million, with 56 percent of exports going to Japan. The Philippines exports Robusta, Liberica and Arabica in its raw/green, not roasted, not decaffeinated form. In 2002, Liberica accounted for the bulk of raw/green bean exports, recorded at around 27,900 MT. The Philippines also exports extracts, essences and concentrates of coffee and preparations.

| VOLUME AND VALUE OF PHILIPPINE COFFEE EXPORTS BY DESTINATION (CALENDAR YEAR 2002, in Green Bean Equivalent) | | |
|---|---|---|
| Destination | Volume (in kgs) | FOB Value $ |
| Japan | 153,132 | 653,108.00 |
| Malaysia | 104,100 | 194,864.00 |
| United Kingdom | 51,069 | 155,031.33 |
| Thailand | 41,600 | 43,602.00 |
| Oman | 35,200 | 50,290.00 |
| Indonesia | 15,340 | 16,178.00 |
| China | 11,700 | 11,840.00 |
| Australia | 3,000 | 4,875.00 |
| Bangladesh | 2,652 | 3,623.00 |
| Taiwan | 1,428 | 9,024.00 |
| Mongolia | 1,026 | 1,705.00 |
| Jordan | 247 | 100.00 |
| TOTAL | 420,494 | 1,144,240.33 |

Source: Department of Trade and Industry, International Coffee Organization Certifying Agency (DTI-ICOCA)

Data from the National Statistics Office show that from January to December 2002, the Philippines imported nearly 29,000 MT of coffee products worth about $26 million. The majority of imports were from Vietnam and Indonesia.

The NCDB claims that the Philippines imports about P1.5 billion worth of coffee every year or about 30,000 MT. If the local coffee industry fails to keep up with rising demand, the NCBD projects that the Philippines will be importing P2.5 billion of this product by 2012. The Philippines imports coffee in various forms, such as roasted, raw/green, extracts, essences and concentrates and other forms.

The government has pegged the minimum access volume (MAV) for year 2003 at 1,391 tons while the rate of duty ranged from 45% (in-quota) to 60% (out-quota). Coffee extracts and coffee beans continue to have consistently high rates of MAV utilization. For 2002, coffee extract utilization remained steady at 99.3 percent while coffee bean usage stood at 87.5 percent, down slightly from the 2001 level. The average coffee bean utilization for 2000-2002 is 94.25 percent while coffee extracts average utilization is 85.5 percent due primarily to the growing consumption of coffee in the Philippine market. MAV use for both coffee bean and extract is expected to remain steady in 2003 (see GAIN RP#3008).

| **MAV UTILIZATION RATE 2000-2002** | | | | | | | |
|---|---|---|---|---|---|---|---|
| HS Code | Description | 2000 MAV (MT) | % Used | 2001 MAV (MT) | % Used | 2002 MAV (MT) | % Used |
| 0901 | Coffee Beans | 1,192 | 96 | 1,258 | 93 | 1,324 | 87.5 |
| 2101 | Coffee Extracts | 26 | 70 | 28 | 99 | 30 | 99.3 |

## Policy

The National Task Force on Coffee Rehabilitation was created by the President to: 1) revitalize and rehabilitate 22,000 hectares of coffee farms; 2) establish and implement standards of quality for coffee production, milling and roasting to be used locally and for export purposes; and 3) market and promote Philippine coffee.

A 300-million peso credit line was opened exclusively for coffee farmers recently by the Quedan Rural Credit and Guarantee Corporation, the credit arm of the Department of Agriculture. Under the coffee credit program, accredited millers, processors and farmer cooperatives will act as the principal borrowers who will relend the loan to individual farmers. The loan will be in the form of inputs and supplies such as fertilizers. It is payable within one year through monthly, quarterly and semi-annual payment schemes. Individual farmers who have produced at least 500 kg of coffee within the last cropping season may avail themselves of the loan. The program targets increasing yield from the present 500 kg-700 kg/ha to an ambitious 4 metric tons per hectare.

The new tariff schedule for 2003 will take effect on July 1, 2003 by virtue of Executive Order No.164 (EO164). The new schedule is as follows:

| H.S. Code | Description | Rate of Duty | | |
|---|---|---|---|---|
| | | 2002 | 2003 | 2004 |

| | | | | |
|---|---|---|---|---|
| 9.01 | Coffee, whether or not roasted or decaffeinated; coffee husks and skins, coffee substitutes containing coffee in any proportion | | | |
| | - Coffee not roasted | | | |
| 0901.11 | -- Not decaffeinated | | | |
| 0901.1110 | --- In-Quota | 30 | 30 | 30 |
| 0901.1120 | --- Out-Quota | 50 | 40 | 30 |
| 0901.12 | -- Decaffeinated | | | |
| 0901.1210 | --- In-Quota | 40 | 35 | 30 |
| 0901.1220 | --- Out-Quota | 50 | 40 | 30 |
| | - Coffee roasted | | | |
| 901.21 | -- Not decaffeinated | | | |
| 901.211 | --- In-Quota | 40 | 35 | 30 |
| 0901.2120 | --- Out-Quota | 50 | 40 | 30 |
| 0901.22 | -- Decaffeinated | | | |
| 0901.2210 | --- In-Quota | 40 | 35 | 30 |
| 0901.2220 | --- Out-Quota | 50 | 40 | 30 |
| 0901.90 | - Other | | | |
| 0901.9010 | --- In-Quota | 40 | 35 | 30 |
| 0901.9020 | --- Out-Quota | 50 | 40 | 30 |
| 21.01 | Extracts, essences and concentrates, of coffee, tea or mate and preparations with a basis of these extracts, essences or concentrates or with a basis of coffee | | | |
| | - Extracts, essences and concentrates of coffee, preparations with a basis of these extracts, essences or concentrates or with a basis of coffee | | | |
| 2101.11 | -- Extracts, essences and concentrates | | | |
| 2101.1110 | --- In-Quota | 30 | 30 | 30 |
| 2101.1120 | --- Out-Quota | 55 | 45 | 30 |
| 2101.12 | -- Preparations with a basis of extracts, essences concentrates or with a basis of coffee | | | |
| 2101.1210 | --- In-Quota | 30 | 30 | 30 |
| 2101.1220 | --- Out-Quota | 55 | 45 | 30 |

## Marketing

The NCDB has recently launched the"Kape Isla" (Island Coffee) brand by building a quality seal program and unifying the coffee industry. The marketing program aims to upgrade the quality perception of Philippine coffee according to world class standards. Kape Isla is intended for the use of different players in the industry as a Philippine coffee quality seal. This is similar to marketing programs established by most coffee-producing countries to differentiate their product.

Nestle Philippines, Inc. (Nescafe) enjoys an 85 percent share of the instant/soluble coffee market. Other players are Commonwealth Food (Café Puro), General Milling Co. (Kaffee de Oro), and Universal Robina Corp (Great Taste, Blend 45) sharing the remaining 15 percent.

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Philippines | | | | | |
| Commodity | Coffee, Green | | | | (1000 HA)(MILLION TREES)(1000 60 KG BAGS) | |
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast |
| | USDA Official[Old] | Post Estimate[New] | USDA Official[Old] | Post Estimate[New] | USDA Official[Old] | Post Estimate[New] |
| Market Year Begin | | 07/2001 | | 07/2002 | | 07/2003 |
| Area Planted | 135 | 135 | 135 | 135 | 0 | 135 |
| Area Harvested | 113 | 113 | 113 | 113 | 0 | 113 |
| Bearing Trees | 95 | 95 | 95 | 95 | 0 | 95 |
| Non-Bearing Trees | 15 | 15 | 15 | 15 | 0 | 15 |
| TOTAL Tree Population | 110 | 110 | 110 | 110 | 0 | 110 |
| Beginning Stocks | 144 | 144 | 218 | 215 | 213 | 227 |
| Arabica Production | 40 | 40 | 38 | 38 | 0 | 42 |
| Robusta Production | 665 | 665 | 660 | 660 | 0 | 660 |
| Other Production | 30 | 30 | 28 | 28 | 0 | 30 |
| TOTAL Production | 735 | 735 | 726 | 726 | 0 | 732 |
| Bean Imports | 200 | 200 | 190 | 200 | 0 | 205 |
| Roast & Ground Imports | 2 | 2 | 2 | 2 | 0 | 3 |
| Soluble Imports | 90 | 90 | 80 | 90 | 0 | 90 |
| TOTAL Imports | 292 | 292 | 272 | 292 | 0 | 298 |
| TOTAL SUPPLY | 1171 | 1171 | 1216 | 1233 | 213 | 1257 |
| Bean Exports | 3 | 3 | 3 | 3 | 0 | 3 |
| Roast & Ground Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Soluble Exports | 0 | 3 | 0 | 3 | 0 | 3 |
| TOTAL Exports | 3 | 6 | 3 | 6 | 0 | 6 |
| Rst,Ground Dom. Consum | 85 | 85 | 90 | 90 | 0 | 100 |
| Soluble Dom. Consum. | 865 | 865 | 910 | 910 | 0 | 920 |
| TOTAL Dom. Consumption | 950 | 950 | 1000 | 1000 | 0 | 1020 |
| Ending Stocks | 218 | 215 | 213 | 227 | 0 | 231 |
| TOTAL DISTRIBUTION | 1171 | 1171 | 1216 | 1233 | 0 | 1257 |